May 29, 2020

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Via electronic email

Mr. Thomas G. Wipf
Chair – Alternative Reference Rates Committee
Federal Reserve Bank of New York
33 Liberty Street
New York, NY 10045
arrc@ny.frb.org

Dear Chairman Wipf,

SOFR Academy is an American education technology firm backed by a team of financial services professionals and academics. We have partnered with Amazon Web Services to provide high-quality low-cost online training courses aimed at empowering people with the knowledge and skills to transition away from the USD London Interbank Offered Rate (LIBOR). We believe that education is critical in order to achieve an orderly and broad-based transition to Alternative Reference Rates (ARR). We also believe that the Secured Overnight Financing Rate (SOFR) can and should be the primary ARR for the vast majority of financial products that currently reference USD LIBOR in the United States of America and abroad.

SOFR Academy is pleased to provide feedback in response to the Alternative Reference Rate Committee's (ARRC) important consultation on fallback language for new variable rate private student loans. In forming our views in response to this consultation we took two actions: first, SOFR Academy informally discussed preferences and responses with selected organizations and industry associations involved in the variable rate private student loan market. Second, we held a series of interviews with individual variable rate private student loan borrowers.

SOFR Academy found it noteworthy that a number of variable rate private student loan borrowers that we interviewed anecdotally reported having recently approached their lenders with a view to refinance their loans. The impetus for their action was the significant reduction[1] of the target range for the federal funds rate by the US Federal Reserve Board in response to the impact of the coronavirus (COVID-19) pandemic on the US economy. It was noted that some of the variable rate private student loan borrowers

[1] See Federal Reserve FOMC statement: https://www.federalreserve.gov/newsevents/pressreleases/monetary20200315a.htm

who we interviewed that had approached their lenders about refinancing reported being quoted *higher* interest rates which may reflect the flow-on effect of an elevated LIBOR experienced in March during a period of market stress.

A situation whereby variable rates for private student loan borrowers increased at a time when the US Federal Reserve markedly reduced official interest rates underscores the importance of the work of the ARRC. We believe that one of the potential benefits of transitioning away from LIBOR could be an increase in the efficiency of the transmission of monetary policy settings into the real economy.

Please find feedback in response to questions in the consultation below.

Questions about Triggers

Question 1: Should fallback language for variable rate private student loans include a pre-cessation trigger (trigger 4(G)(ii))?

SOFR Academy is supportive of including a pre-cessation trigger, consistent with our view of inclusion of pre-cessation triggers for other product and with the preliminary results of ISDA's consultation on pre cessation fallbacks for LIBOR[2].

Question 2: Please indicate whether any concerns you have about a pre-cessation trigger relate to differences between such a trigger and those for standard derivatives or relate specifically to the pre-cessation trigger itself.

No response provided.

Question 3: If a pre-cessation trigger is not included, what options would be available to market participants to manage the potential risks involved in continuing to reference a Benchmark whose regulator has publicly determined that it is not representative of the underlying market?

This is a difficult question to answer which highlights the importance of the work of the ARRC and this consultation. The UK's Risk-Free-Rate (RFR) 'Tough Legacy' Taskforce[3] considered the scenario of LIBOR being stabilized via a so called 'synthetic methodology' for a wind down period following panel bank departure. We believe that the ARRC could consider collaborating with the relevant UK representatives in a unified effort to further explore this possibility. This could potentially provide some comfort to market participants in managing the potential risks involved in continuing to reference a benchmark whose regulator has publicly determined that it is not representative of the underlying market.

Question 4: The variable rate private student loan language proposed uses simplified language in an effort to be more comprehensible for the consumer market. Is the simplified language proposed here appropriate, or are there concerns with the language not matching ISDA or other cash product language precisely?

Only a small portion of the variable rate private student loan borrowers that we interviewed were aware that LIBOR may become unavailable or unusable at the end of 2021. None of the variable rate private

[2] See ISDA Press release: ISDA Announces Preliminary Results of Consultation on Pre-cessation Fallbacks for LIBOR https://www.isda.org/a/7DqTE/ISDA-Announces-Preliminary-Results-of-Consultation-on-Pre-cessation-Fallbacks.pdf

[3] See UK RFR Working Group Paper on the identification of Tough Legacy issues https://www.bankofengland.co.uk/-/media/boe/files/markets/benchmarks/paper-on-the-identification-of-tough-legacy-issues.pdf?la=en&hash=0E8CA18F27F75352B0A0573DCBBC93D903077B6E

student loan borrowers we interviewed were familiar with SOFR. Therefore we support prioritizing language that is as simple and as easy to understand as possible. We are less concerned that the language may not match ISDA or other cash product language precisely.

Questions about Replacement Index and Margin

Question 5: Is the replacement index determined by the Federal Reserve Board, the Federal Reserve Bank of New York, or a committee endorsed or convened by the Federal Reserve Board or the Federal Reserve Bank of New York the best choice for the first step of the waterfall? Why or why not?

SOFR Academy is of the view that the replacement index determined by the Federal Reserve Board, the Federal Reserve Bank of New York, or a committee endorsed or convened by the Federal Reserve Board or the Federal Reserve Bank of New York *is* the best choice for the first step of the waterfall. We also believe that the Secured Overnight Financing Rate (SOFR) can and should be the primary ARR for the vast majority of financial products that currently reference USD LIBOR in the United States of America and abroad.

Question 6: As noted above, in addition to recommending SOFR, the ARRC may recommend forward-looking term SOFR rates if it is satisfied that a robust, IOSCO- compliant term rate that meets its criteria can be produced. If the ARRC recommends forward-looking term rates (e.g., 1-month, 3-month, 6-month, etc.) and a corresponding spread adjustment, should a spread adjusted term rate be the replacement index for variable rate private student loans, or would a spread-adjusted average (simple or compounded) of SOFR be more appropriate? Please provide support for your answer.

SOFR Academy does not have a strong view on this question but we err on the side of using a forward-looking IOSCO-compliant SOFR term rate if it is available. More generally, we believe that any basis risk between a SOFR spread-adjusted average (simple or compounded) and forward-looking term rates would generally be manageable for lenders and securitization issuers. Differences in these SOFR variants would be relatively small in the current low interest rate environment.

Due to the SOFR variants that will emerge during the transition away from USD LIBOR, we expect that more sophisticated price makers will create a SOFR variant basis market where participants unwilling or unable to manage this risk could hedge this basis, although we acknowledge doing so could increase costs at the margin.

Questions about Note Holder-Determined Replacement Index and Possible Adjustment to the Loan's Margin

Question 7: Should the Note Holder have the responsibility as the 2nd and last step of the waterfall? Why or why not?

Our research generally indicated that it probably was reasonable for the note holder to have the responsibility as the 2nd and last step of the waterfall on the condition that if a noteholder was to select a replacement index with possible margin adjustment these changes were made in fair and transparent way that prioritized the protection of the interests of the borrower.

Question 8: Should the Note Holder have the ability to make adjustments (positive or negative) to the loan's margin to more closely approximate the LIBOR-based interest rate present at the time of replacement? Why or why not? If you do not believe the Note Holder should make adjustments to the loan's margin, and potential replacement indices diverge from the value of the current Index, what provision or step should be taken to preserve that consistency?

Our research generally indicated that it probably was reasonable for the note holder to have the ability to make adjustments to the loans margin on the condition that this change was made in a fair and transparent way that prioritized the protection of the interests of the borrower.

Question 9: If the Note Holder is a trust, is there some entity other than the Note Holder that should be responsible for identifying the replacement Index if Step 1 of the waterfall fails? Please provide sufficient rationale for your answer.

No response provided.

D. Other Questions and General Feedback

Question 10: Will this language have unintended consequences not considered by the ARRC working group? If so, please explain and provide information about why this language would present challenges. If there are concerns with this proposed language, please be sure to specify if concerns relate to this proposed language, or to index replacement language in general.

No response provided.

Question 11: Is there any provision in the proposal that would significantly impede variable rate private student loans originations? If so, please provide a specific and detailed explanation.

No response provided.

Question 12: Please provide any additional feedback on any aspect of the proposal.

SOFR Academy anticipates that a relatively wide variety of market participants will be impacted by changes to variable rate private student loans including lenders and securitization issuers. Considering the recent economic downtown and taking into account this market segment is particularly sensitive[4] to rate shocks, we believe that protecting the economic interests of the student loan borrowers themselves should be prioritized during LIBOR transition. Attempts should be made to ensure that any residual value transfer at the time of LIBOR cessation should be in favor of the borrower.

As mentioned in our response to the ARRC Consultation on Spread Adjustment Methodologies for Fallbacks in Cash Products Referencing USD LIBOR[5], SOFR Academy encourages the ARRC to explore ways to leverage technology to reduce the level of effort required by market participants to respond to industry consultations such as this. The purpose of reducing the effort level required to respond would be

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[4] See Letter from consumer protection advocacy groups to the ARRC dated March 6, 2020 https://protectborrowers.org/wp-content/uploads/2020/03/LIBOR-Spread-Adjustments-Coalition-Letter.pdf

[5] See ARRC website: Responses to the ARRC Consultation on Spread Adjustment Methodologies for Fallbacks in Cash Products Referencing USD LIBOR https://www.newyorkfed.org/medialibrary/Microsites/arrc/files/2020/ARRC_Spread_Adjustment_Consultation_Responses.pdf

to encourage a greater number of responses from a wider variety of market participants. We believe this is particularly important for consultations that primarily impact consumers products.

Thank you for your consideration of these comments.

Yours sincerely,

Members of the Management Board.

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